



JANUARY 2009

Barack Obama's inauguration as our 44th President of the United States dominated the Washington landscape as more than a million Americans came to witness the making of history. Despite daily reminders of the growing seriousness of our economic crisis, the nation has embraced the beginning of the Obama-Biden Administration with a deep sense of hope and opportunity. President Obama and his young family have filled Washington with a sense of excitement and possibility as he calls for a new spirit of bipartisanship and cooperation to meet the nation's challenges with bold and innovative action.

For its part, Congress has attempted to meet the President's challenge with its own commitment to hit the ground running. In the first month of the 111th Congress, they have acted on issues ranging from gender pay equity to the expansion of the State Children's Health Insurance Program to the future of the Troubled Asset Relief Program funding to confirmation of major administration appointees.

As the month came to a close, despite personal appeals from the President himself for bipartisan action, the House of Representatives passed a \$819.5 billion economic stimulus package – The American Recovery and Reinvestment Act – on a straight party line vote. In response, President Obama reflected that it will take more than a few days to change the way Washington works.

ISSUES AND EVENTS

A New Direction for the Troubled Asset Relief Program

The \$700 billion Troubled Asset Relief Program (TARP), established as a key component of the Emergency Economic Stabilization Act of 2008, has been the subject of constant criticism and second-guessing as the outgoing Bush Administration distributed roughly half of the funding. Leading Members of Congress have criticized the Treasury Department's lack of a well-designed plan to utilize the funds to stabilize the economy and to stimulate the banking industry to unfreeze the credit market. Congress has been extremely critical of the Administration's total failure to allocate any funding to address the growing home foreclosure crisis.

In addition to questions relative to the policies behind the utilization of TARP funding, there are a growing number of questions regarding the actual management of the funds. The Government Accountability Office (GAO), the Congressional Oversight Committee created to advise Congress regarding the TARP, and others have published reports that underscore the complete lack of accountability and transparency in the program. When combined with continuing reports of corporate excesses – ranging from bonus payments, to corporate jets, to

lavish entertainment – these events have eroded support for the program in Congress.

Faced with the need to quickly access the additional TARP funding, the incoming Obama team joined with President Bush to urge Congress to release the remaining \$350 billion without further legislative action. The Obama team promised a complete overhaul of the balance of the program and promised complete transparency. While the Senate appeared open to accept the Obama promises, House leaders opted for a more proactive strategy.

Congressman Barney Frank (D-MA), Chairman of the House Financial Services Committee, introduced legislation to strengthen accountability, close loopholes, increase transparency, and require Treasury to take significant steps on foreclosure mitigation. His legislation responded to concerns that many Members of Congress have expressed since Treasury began implementing the original program. According to Frank, it also reflected lessons learned from the hearings and legislative negotiations relative to possible relief for U.S. auto manufacturers and from the reports produced by GAO and TARP Oversight Committee.

Following intense lobbying from the Obama transition team, including written commitments from incoming economic advisor Larry Summers that President Obama would pursue a course of action that would reflect the original intent of the legislation, the Senate voted not to block the release of the balance of the TARP funds thereby clearing the way for an immediate allocation of the remainder of the funds by the new Administration.

The following week, in a symbolic gesture of dissatisfaction with the initial implementation of the TARP, the House of Representatives voted 270 to 155 against releasing the second allotment of \$350 billion. Chairman Frank said the vote was a reflection of anger in the American people and the Congress. However, he quickly added that the Bush Administration's failures should not be used to prevent President Obama from having a chance to do better.

The Obama Treasury Department is expected to release sweeping reforms to the implementation and management of the TARP program and has promised complete transparency for every expenditure, an effort to address the underlying mortgage foreclosure crisis, and vigorous enforcement of limits on executive compensation.

Congress Passes SCHIP Reauthorization and Expansion

California Congressman Pete Stark called the reauthorization of the State Children's Health Insurance Program "unfinished business" from the last Congress and promised swift action as Congress reconvened in January. The legislation, which was passed twice in the past Congress and vetoed by President Bush both times, included an expansion of the program by \$35 billion over five years.

Faced with increasing costs and more revenue options, both the House and Senate have passed SCHIP legislation that slightly scales back their original plans. However, Congressman Henry Waxman (D-CA) said, "I am very proud that the first health care bill being considered in the new Congress and with a new President is to ensure health coverage to vulnerable children."

The legislation expands the program to include 4 million more children and extends the SCHIP for four and half years at a cost of \$32.8 billion. The expansion is largely funded by an increase in the federal tax on cigarettes of 62 cents per pack. Although the final Senate bill passed with nine Republican votes, their leaders claimed that changes made to this year's legislation fractured the bipartisanship that had marked last year's consideration of the SCHIP reauthorization. The most significant changes removed a five-year waiting period for new legal immigrants and loosened citizenship and eligibility requirements.

The SCHIP program dates back to 1997, when it was created to provide health care to low-income children whose parents are not poor enough to qualify for Medicaid but who can't afford private insurance.

Swift action to reauthorize and expand the SCHIP program is being hailed as a major down payment on President Obama's commitment to provide health coverage for all Americans.

Stimulus Legislation Advances; CalPERS Health Priorities Included

The House of Representatives has approved a \$819.5 billion economic stimulus bill. The legislation, which passed without a single Republican vote, includes billions for transportation, infrastructure, construction, health care programs, education and housing assistance, and energy efficiency projects. It advances a number of CalPERS health reform priorities, including provisions that will facilitate broad implementation of Health IT, funding for comparative effectiveness research, and increased Medicaid funding to help reduce cost-shifting.

Speaker Nancy Pelosi (D-CA), said the vote "honors the promises our new president made from the steps of the Capitol" during his inauguration. For his part, Obama said, "I hope that we can continue to strengthen this plan before it gets to my desk. But, what we can't do is drag our feet or allow the same partisan differences to get in our way. We must move swiftly and boldly to put Americans back to work, and that is exactly what this plan begins to do."

Republican members, who wanted larger tax cuts for business and less spending, argued that they were shut out of the process, Speaker Pelosi and other House Democratic leaders pointed to a process that allowed open debate and amendments in several committee mark-ups and on the floor of the House. "I think when you lose the arguments on substance, on policy," Pelosi said, "you talk about process and you talk about personality."

The stimulus package includes key health care reform provisions that CalPERS has been actively supporting in recent years. Electronic health records are expected to result in both increased efficiency and reduced medical errors. The package provides \$20 billion for the government to create standards for the technology, implement medical records systems for public insurance programs like Medicaid and Medicare, and pay hospitals and physicians to purchase and implement similar systems.

Under the provisions of the legislation, hospitals would be eligible for payments of at least \$2 million beginning in fiscal year 2011 if they adopt electronic records meeting the federal standard. Individual physicians could receive up to \$65,000 for going electronic. Beginning in 2016, hospitals and physicians would face reduced Medicare payments if they don't use electronic medical records.

Funding for comparative effectiveness research – estimated at over \$1 billion in the stimulus package – is expected to be an important tool in improving quality and slowing the rate of growth in our health care system. Investment in comparative effectiveness research will ultimately result in important information regarding the clinical effectiveness, risks and benefits of pharmaceuticals, medical advices and technologies and procedures. CalPERS believes that the dissemination of this information to patients, physicians, nurses and hospitals will result in better health care decision-making by providers, and have potential to reduce health costs to patients and payers.

The Senate is expected to consider the stimulus legislation early in February.

Investor Protection and Risk Regulation Top Market Reform Agenda

Mary Shapiro, President Barack Obama's choice to head the Securities and Exchange Commission (SEC), told the Senate Banking Committee that our regulatory system has not kept pace with the markets and the needs of investors. Her remarks came during her confirmation hearing and reflect a widely held belief that recent events that have rocked our economy reflect a massive failure of the nation's regulatory and oversight organizations. Specifically, Ms. Shapiro told Senators that "it's imperative that the SEC be given the resources and the support it needs to investigate and go after those who cut corners, cheat investors, and break the law." Among her top priorities, she pledged to work to deepen the SEC's commitment to investor protection, transparency, accountability, and disclosure.

Senator Jack Reed (D-RI), Chairman of the Securities Subcommittee of the Senate Banking Committee, has said that "We face a crisis in our markets... It's primarily a crisis of confidence... in our economy, our financial institutions, and our regulators." He has suggested that a desire for competitiveness may have enhanced the trend toward lax supervision and oversight. "We need to move to strike a new balance that protects investors without stifling innovation or impeding capital formation, he said." He believes the American people are demanding significant regulatory reform – and promised a thorough and deliberate review of the entire system.

"Congress needs to conduct a top-to-bottom review of the SEC's strengths and weaknesses," Senator Reed said. He promised to hold hearings in his subcommittee to solicit input from a broad range of stakeholders before deciding how to reform the SEC. In the past, he has proposed significant increases in funding for the SEC. He stressed that Congress must ensure that the SEC has the resources to do its job.

He also identified areas that pose systemic risk to our economy that require additional regulation. "In this category I would include: products that currently are not regulated, such as credit derivatives; markets lacking transparency, such as dark pools; and institutions that do not have formal, structured oversight, such as hedge funds."

In the House, Congressman Barney Frank (D-MA), Chairman of the House Financial Services Committee, has said that he expects to address comprehensive market regulatory reform in two or more pieces. First, he is expected to propose sweeping changes designed to identify and limit systemic risk – reportedly by creating a new systemic risk regulator to be incorporated into the Federal Reserve Bank. Second, like Senator Reed, he has promised a thorough review of the regulatory system with an eye toward increased efficiency, accountability, transparency, and strong individual and institutional investor protections.

Obama Calls for Entitlement Reform

Although light on specifics, President Obama has promised to address the fundamental problems associated with the financial sustainability of the nation's major entitlement programs – Social Security and Medicare. Some have suggested that the President will propose a special presidential commission that would offer recommendations to the Congress for an up or down vote. Others expect specific reform proposals to be advanced by the administration.

In either case, it's increasingly clear that the President doesn't intend to hide from the tough issues. Also, as a practical matter, Medicare needs to play a major role in any comprehensive health care reform initiative. As the nation's largest health care provider, the Medicare program must serve as a model for reforms and needs to provide leverage for the implementation of critical systemic quality and value enhancements.

The President is expected to advance a more complete picture of his agenda following the passage of economic stimulus legislation.

RELATED NATIONAL AND INDUSTRY NEWS

NIRS Survey Finds 83% of Americans Concerned About Retirement

The National Institute on Retirement Security (NIRS), a not-for-profit organization established by public retirement-related associations, released new data that highlights that more than eight out of ten Americans are worried about their ability to retire. Some 71% indicated that they feel it is harder to retire as compared to previous generations.

Their findings also indicate that Americans believe pensions can help reduce insecurity, with 55% expressing that a pension would increase their own retirement confidence and 84% saying that policymakers should make it easier for employers to offer pensions. Nine out of ten Americans believe all workers should have a pension plan.

According to NIRS Executive Director Beth Almeida, "To restore retirement readiness, Americans would be well-served by policies from the new Congress and Administration that take a comprehensive approach: recognizing that 401(k) plans can't do it alone; shoring up Social Security, and re-tooling pensions for the 21st century."

Complete survey results can be found at www.nirsonline.org.

CALIFORNIA CONGRESSIONAL DELEGATION NEWS

Waxman Takes Energy & Commerce Gavel

In a historic battle between two larger-than-life Congressional leaders, California Congressman Henry Waxman (D-CA) defeated Congressman John Dingell (D-MI) for the chairmanship of the powerful House Committee on Energy and Commerce. Chairman Dingell, who is about to become the longest serving member of the House of Representatives, has served as the Democratic leader of the Energy and Commerce Committee for more than 30 years.

Congressman Waxman focused his campaign on the issues of global warming and health care – both issues on which the committee has far-reaching authority. He capitalized on the ‘Change’ theme that dominated last year’s national election and built key relationships with incoming members of the new Congress to build a winning coalition.

Becerra Elected to Caucus Leadership

California Congressman Xavier Becerra (D-CA), having opted not to accept President Barack Obama’s offer to become the nation’s Trade Representative, recommitted himself to his work as a Member of Congress. As the Members organized for the 111th Congress, Mr. Becerra was elected by his colleagues to serve as Vice Chair of the Democratic Caucus – a position that increased his role as one of Speaker Nancy Pelosi’s closest advisors.

Congresswoman Hilda Solis Nominated for Labor Secretary

President Barack Obama has nominated Congresswoman Hilda Solis (D-CA) to serve as Secretary of Labor in his new administration. Congresswoman Solis has promised to renew the department’s commitment to labor protections and workers rights. The Senate Health, Education, Labor and Pensions Committee held a hearing on Congresswoman Solis’ appointment early in January.

Congresswoman Zoe Lofgren Named Chair of the House Ethics Committee

Congresswoman Zoe Lofgren (D-CA) has been appointed by Speaker Nancy Pelosi (D-CA) to serve as Chair of the House Committee on Standards of Official Conduct. Congresswoman Lofgren, who also serves as Chair of the California Democratic Congressional Caucus, said that without the public’s trust and confidence, government loses its legitimacy. She said her committee exists to ensure that the House maintains that trust and commitment.